March 1, 2016

To: Members of the Commerce Committee

Fr: Connecticut Bankers Association

Contacts: Tom Mongellow, Fritz Conway

Re: H.B. No. 5045 AN ACT CONCERNING REVISIONS TO THE SMALL BUSINESS EXPRESS PROGRAM

Position: Support

This bill would allow the DECD the option of allocating up to ten percent of the Small Business Express program to a fund that would that would be used in conjunction with private sector lenders to lend to small businesses.

We are supportive of this concept as the banking industry in Connecticut is well capitalized and stands ready to lend. Banks have statewide reach and are in contact with small businesses on a daily basis. That marketing range would provide the ability to reach a large number of small businesses and familiarize them with any such program, and assist them in the loan application and origination process. In addition, Banks in numerous surveys continue to be viewed as one of the most trusted financial providers in the financial services arenas.

Banks have to originate commercial loans in a safe and sound manner that pass the regulatory oversight of at least two banking regulators. They have carefully developed lending policies that once approved, have to be adhered to. When a commercial loan applicant does not meet those criteria, regrettably, the loan is not approved. However, where an applicant just misses the approval criteria, there are certain "credit enhancement" programs which can bridge that gap and allow for the approval of the loan. These credit enhancement programs are offered in a number of different forms including Federal Small Business Administration products or the DECD's Urbank program. Each program typically targets a particular type of lending such as equipment purchasing, working capital or facility improvements. All of these programs basically lower the 'risk profile" of the potential loan to make it bankable from a regulatory review and internal lending policy perspective.

A large added advantage to many of these credit enhancement programs, is that the banks use their own dollars to fund the loans, so the program doesn't have to use their monies to fund the loan. The credit enhancement in these cases, would only be utilized in the event of a borrower default. In those cases, while the bank would typically absorb the bulk of the loan loss (skin in the game) only a small portion of the loan loss (determined by each program) would be paid by the program. By example, that leveraging concept could result in credit enhancement program funded with one million dollars, generating ten million dollars' worth of bank lending for small businesses, without spending any program dollars unless there was a borrower default.

These types of programs can be developed in many different ways, and should the DECD opt to set up the fund as would be allowed by this bill, the banking industry would welcome the opportunity to work with the Department to maximize its impact to small businesses around the State. We urge the Committee to support House Bill 5045.